

STATE OF SOUTH CAROLINA

Progress Energy Carolinas, Inc.'s Motion for Partial Waiver
of Commission Rules 103-331 and 103-336

**BEFORE THE
PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA**

COVER SHEET

DOCKET

NUMBER: 2009 - 168 - E

(Please type or print)

Submitted by: K. Chad Burgess

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DOCKETING INFORMATION (Check all that apply)

- ☐ **Emergency Relief demanded in petition** ☐ **Request for item to be placed on Commission's Agenda expeditiously**
- ☐ **Other:** _____

INDUSTRY (Check one)	NATURE OF ACTION (Check all that apply)			
<input checked="" type="checkbox"/> Electric	<input type="checkbox"/> Affidavit	<input type="checkbox"/> Letter	<input type="checkbox"/> Request	
<input type="checkbox"/> Electric/Gas	<input type="checkbox"/> Agreement	<input type="checkbox"/> Memorandum	<input type="checkbox"/> Request for Certification	
<input type="checkbox"/> Electric/Telecommunications	<input type="checkbox"/> Answer	<input type="checkbox"/> Motion	<input type="checkbox"/> Request for Investigation	
<input type="checkbox"/> Electric/Water	<input type="checkbox"/> Appellate Review	<input type="checkbox"/> Objection	<input type="checkbox"/> Resale Agreement	
<input type="checkbox"/> Electric/Water/Telecom.	<input type="checkbox"/> Application	<input type="checkbox"/> Petition	<input type="checkbox"/> Resale Amendment	
<input type="checkbox"/> Electric/Water/Sewer	<input type="checkbox"/> Brief	<input type="checkbox"/> Petition for Reconsideration	<input type="checkbox"/> Reservation Letter	
<input type="checkbox"/> Gas	<input type="checkbox"/> Certificate	<input type="checkbox"/> Petition for Rulemaking	<input type="checkbox"/> Response	
<input type="checkbox"/> Railroad	<input type="checkbox"/> Comments	<input type="checkbox"/> Petition for Rule to Show Cause	<input type="checkbox"/> Response to Discovery	
<input type="checkbox"/> Sewer	<input type="checkbox"/> Complaint	<input type="checkbox"/> Petition to Intervene	<input type="checkbox"/> Return to Petition	
<input type="checkbox"/> Telecommunications	<input type="checkbox"/> Consent Order	<input type="checkbox"/> Petition to Intervene Out of Time	<input type="checkbox"/> Stipulation	
<input type="checkbox"/> Transportation	<input type="checkbox"/> Discovery	<input checked="" type="checkbox"/> Prefiled Testimony	<input type="checkbox"/> Subpoena	
<input type="checkbox"/> Water	<input type="checkbox"/> Exhibit	<input type="checkbox"/> Promotion	<input type="checkbox"/> Tariff	
<input type="checkbox"/> Water/Sewer	<input type="checkbox"/> Expedited Consideration	<input type="checkbox"/> Proposed Order	<input type="checkbox"/> Other:	
<input type="checkbox"/> Administrative Matter	<input type="checkbox"/> Interconnection Agreement	<input type="checkbox"/> Protest		
<input type="checkbox"/> Other:	<input type="checkbox"/> Interconnection Amendment	<input type="checkbox"/> Publisher's Affidavit		
	<input type="checkbox"/> Late-Filed Exhibit	<input type="checkbox"/> Report		



K. Chad Burgess
Senior Counsel

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August 20, 2009

VIA ELECTRONIC FILING

The Honorable Charles Terreni
Chief Clerk/Administrator
South Carolina Public Service Commission
101 Executive Center Drive (29210)
Post Office Drawer 11649
Columbia, South Carolina 29211

RE: Progress Energy Carolinas, Inc.'s Motion for Partial Waiver of Commission Rules
103-331 and 103-336
Docket No. 2009-168-E

Dear Mr. Terreni:

Enclosed for filing on behalf of South Carolina Electric & Gas Company is the Direct Testimony of Dan S. Brown in the above captioned matter.

By copy of this letter, we are also serving counsel for the other parties of record with a copy of the enclosed testimony and attach a certificate of service to that effect.

If you have any questions, please do not hesitate to contact me.

Very truly yours,

K. Chad Burgess

KCB/kms
Enclosures

cc: Len S. Anthony, Esquire
Catherine E. Heigel, Esquire
M. John Bowen Jr., Esquire
Margaret M. Fox, Esquire
Shealy Boland Reibold, Esquire
(via U.S. First Class mail w/enclosures)

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2009-168-E

IN RE:

Progress Energy Carolinas, Inc.'s Motion)	CERTIFICATE OF SERVICE
For Partial Waiver of Commission)	
Rules 103-331 and 103-336)	
_____)	

This is to certify that I have caused to be served this day one (1) copy of South Carolina Electric & Gas Company's **Direct Testimony of Dan S. Brown** to the persons named below via U.S. First Class Mail at the addresses listed:

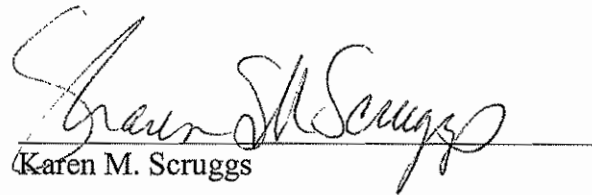
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Karen M. Scruggs

Columbia, South Carolina

This 20th day of August 2009

DIRECT TESTIMONY OF

DAN S. BROWN

ON BEHALF OF

SOUTH CAROLINA ELECTRIC & GAS COMPANY

DOCKET NO. 2009-168-E

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND CURRENT POSITION.

A. Dan S. Brown, 1426 Main Street, Columbia, South Carolina. My current position is Director of Corporate Credit for SCANA Corporation ("SCANA"). In this proceeding, I am testifying on behalf of South Carolina Electric & Gas Company ("SCE&G" or "Company").

Q. DESCRIBE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE.

A. I graduated from the University of South Carolina with a Bachelor of Science degree in Finance. I also earned a Master of Business Administration degree from the University of South Carolina. In 1973, I entered the banking business and worked in this field for 28 years until my retirement in December 2001. During my tenure with the banking industry, I held numerous leadership positions including the management of business banking credit risk in North Carolina and South Carolina. After my retirement, I began working for SCANA

1 as its Corporate Credit Manager. In 2006, I was promoted to my current position
2 of Director of Corporate Credit.

3 **Q. BRIEFLY SUMMARIZE YOUR CURRENT DUTIES AS DIRECTOR OF**
4 **CORPORATE CREDIT.**

5 A. As Director of Corporate Credit I am responsible for developing,
6 implementing, and managing SCANA's, including SCE&G's, credit and
7 collection policies and procedures. In this role, I am responsible for, among other
8 things, ensuring that SCE&G's credit and collection policies and procedures are in
9 compliance with Commission regulations and orders and properly adhered to by
10 SCE&G.

11 **Q. WHAT IS THE PURPOSE OF THIS PROCEEDING?**

12 A. By Order No. 2009-344 dated May 27, 2009, issued in Docket No. 2009-
13 168-E, the Commission stated that it had previously approved a waiver of 26 S.C.
14 Code Ann. Regs. 103-331 and 103-336 (1976, as amended) for Duke Energy
15 Carolinas, LLC ("Duke Energy"); denied a similar request for a waiver of these
16 rules made by SCE&G; and had recently received a Motion for Partial Waiver of
17 these rules from Carolina Power and Light Company d/b/a Progress Energy
18 Carolinas, Inc. ("Progress Energy"). Recognizing the differences in applying
19 Rules 103-331 and 103-336 among investor owned utilities, the Commission
20 stated, "It is my opinion that the Commission needs uniformity among the
21 companies in this matter." See Order No. 2009-344. Accordingly, the
22 Commission instructed its staff to schedule a generic hearing concerning the

1 waiver of Commission Rules 103-331 and 103-336. In compliance with Order
2 No. 2009-344, Commission Staff initiated this proceeding by issuing a Notice of
3 Generic Hearing dated June 5, 2009.

4 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

5 A. The purpose of my testimony is to discuss with the Commission SCE&G's
6 current credit policies and procedures and the impact that Rule 103-331 has had
7 upon the Company. I will also explain why the partial waiver of Rule 103-331
8 granted to Duke Energy should be extended and applied to SCE&G and why the
9 Commission should also waive Rule 103-336 for electric utilities.

10 **Q. PLEASE BRIEFLY EXPLAIN SCE&G'S CREDIT POLICIES AND**
11 **PROCEDURES.**

12 A. SCE&G manages its credit policies and procedures within the guidelines
13 established by the Commission. At SCE&G, the Company performs initial and
14 on-going creditworthiness evaluations of its customers and engages in collection
15 efforts when necessary. By initiating these tasks, SCE&G is able to identify its
16 credit exposures and the risks associated with collecting outstanding and unpaid
17 receivables. This allows the Company to mitigate unacceptable credit risks which
18 is accomplished by collecting and holding deposits, seeking other forms of
19 security for payment, and collecting arrears billings. By implementing these
20 policies and procedures, SCE&G seeks to lower the risk of service cutoffs and
21 subsequent write-offs associated with customer defaults, which in-turn is
22 beneficial to all SCE&G customers.

1 **Q. PLEASE BRIEFLY EXPLAIN THE STATE OF THE ECONOMY OF**
2 **SOUTH CAROLINA.**

3 A. South Carolina is currently experiencing a deep business cycle recession
4 with unemployment at 12.1%. Business layoffs, closings and bankruptcies are at
5 high levels resulting in a greater number of SCE&G's large, nonresidential
6 customers finding themselves in arrears on their electric bill and defaulting on
7 payment obligations for electric service. As a result, SCE&G is writing-off an
8 increased amount of uncollectible debt which adversely impacts the Company's
9 other customers. Despite some early signs of economic recovery, SCE&G expects
10 the current economic conditions to continue into the foreseeable future.

11 **Q. PLEASE EXPLAIN THE IMPACT THAT RULE 103-331 HAS HAD UPON**
12 **THE COMPANY AND ITS CUSTOMERS.**

13 A. When large, nonresidential customers of SCE&G publicly announce that
14 they are experiencing financial difficulties and their plans for dealing with such an
15 event, SCE&G typically is unable to protect itself upon learning this news. This is
16 so because Rule 103-331 prohibits the Company from collecting a deposit from a
17 customer who is experiencing financial distress after electric service is established
18 but yet their account remains in good standing. In instances such as this, other
19 creditors position themselves in a manner allowing them to negotiate financial
20 solutions that remove or mitigate certain financial risks while SCE&G, on the
21 other hand, is prohibited from taking similar actions; actions, if taken, would more
22 than likely benefit SCE&G and its customers. For example, SCE&G could

1 attempt to negotiate with its customer a prepayment for a definite period of time
2 which is less financially stressful than requiring payment of a two month deposit
3 or SCE&G could require the customer to provide a parent company guaranty or a
4 one month deposit with a bank payment draft on the due date, both of which
5 would protect SCE&G from a potential write-off account and give the customer an
6 opportunity to work on a financial recovery plan without having SCE&G as an
7 adversarial creditor.

8 In its current form, Rule 103-331 requires SCE&G to wait for a customer in
9 financial distress to default on their payment obligations to the Company while the
10 customer's other creditors take action to work with their customer to protect their
11 mutual interests. This places SCE&G and its customers at a distinct disadvantage
12 vis-à-vis the customer's other creditors. By way of example, in early 2009, two of
13 SCE&G's large commercial customers filed bankruptcy. Both customers were
14 current with their payment obligations to SCE&G and neither had been late with a
15 payment during the previous two years. Even though SCE&G was aware of the
16 customers' public announcements regarding their well-known financial
17 difficulties, the Company was prohibited from negotiating any type of payment
18 solution with the customer in an attempt to mitigate the credit risk facing the
19 Company and its customers. Consequently, SCE&G was forced to write-off the
20 pre-petition debts in the amount of approximately \$850,000. In previous years,
21 similar circumstances have resulted in several million dollars in write-offs.

1 **Q. ARE YOU FAMILIAR WITH THE COMMISSION'S RULING IN WHICH**
2 **IT APPROVED A PARTIAL WAVIER OF RULE 103-331 FOR DUKE**
3 **ENERGY?**

4 A. Yes, I am familiar with the partial waiver granted to Duke Energy by the
5 Commission.

6 **Q. HAVE YOU REVIEWED THE DIRECT TESTIMONY OF BARBARA**
7 **YARBROUGH OF DUKE ENERGY THAT WAS PREFILED IN THIS**
8 **DOCKET?**

9 A. Yes.

10 **Q. DO YOU AGREE WITH AND SUPPORT MS. YARBROUGH'S**
11 **TESTIMONY?**

12 A. Yes, I do.

13 **Q. IS IT SCE&G'S POSITION THAT THE COMMISSION SHOULD**
14 **EXTEND THE PARTIAL WAIVER GRANTED TO DUKE ENERGY TO**
15 **SCE&G?**

16 A. Yes.

17 **Q. PLEASE EXPLAIN WHY THE PARTIAL WAIVER GRANTED TO DUKE**
18 **ENERGY SHOULD BE EXTENDED TO SCE&G.**

19 A. The partial waiver granted to Duke Energy should be extended to SCE&G
20 because it will provide the Company and its nonresidential customers with an
21 additional mechanism to communicate openly and honestly about financial issues.
22 This open line of communication will allow SCE&G to explore financial solutions

1 which may help resolve the credit risk issues confronting SCE&G today. By
2 extending the waiver to SCE&G, the Commission will be placing the Company on
3 equal footing with a customer's other creditors who currently have the ability to
4 manage their financial risk to the detriment of SCE&G and its customers.

5 **Q. PLEASE EXPLAIN WHY THE COMMISSION SHOULD WAIVE RULE**
6 **103-336.**

7 A. If the Commission waives Rule 103-331, then it follows that Rule 103-336
8 should also be waived for electric utilities. Rule 103-336 requires electric utilities
9 to refund deposits collected from customers, with interest, after two years unless
10 the customer has had two consecutive thirty-day arrears, or more than two non-
11 consecutive thirty-day arrears, in the past twenty-four months. In instances where
12 SCE&G has collected a deposit from a customer prior to initiating electric service
13 and then learns that the customer is experiencing financial difficulties but yet the
14 customer has not been delinquent with payment for their electric service for a two-
15 year period, Rule 103-336 requires SCE&G to refund the customers' deposit even
16 though the customer is a heightened credit risk. In these circumstances, Rule 103-
17 336 removes the form of security (*i.e.*, the deposit) that the electric utilities rely
18 upon for securing payment of their services and places SCE&G and its customers
19 at risk for incurring additional write-offs which increases the balance of the
20 Company's uncollectible account. For these reasons, the Commission should
21 waive Rule 103-336 for electric utilities.

1 **Q. IF THE COMMISSION GRANTED A WAIVER OF RULES 103-331 AND**
2 **103-336, WHICH CLASS OF CUSTOMERS WOULD THE WAIVER BE**
3 **APPLIED?**

4 A. If the Commission granted a waiver of Rules 103-331 and 103-336,
5 SCE&G would not apply the waiver in circumstances concerning residential
6 customers. The waiver would only apply to those SCE&G customers that are
7 classified as large, nonresidential customers.

8 **Q. WOULD A WAIVER BY THE COMMISSION OF RULES 103-331 AND**
9 **103-336 BE CONTRARY TO THE PUBLIC INTEREST?**

10 A. No, a waiver of Rules 103-331 and 103-336 is not contrary to the public
11 interest. Customer service is a principle value at SCE&G, and the Company seeks
12 to provide excellent customer service at all times. SCE&G works with all its
13 customers in searching for ways to lessen the customers' financial burdens
14 concerning payment for electric service while simultaneously protecting the
15 interests of SCE&G and its other customers. However, without a mechanism to
16 secure payment from those customers who are credit risks, then SCE&G may be
17 forced to write-off additional bad debt which adversely impacts the Company and
18 its other customers.

1 **Q. IF THE COMMISSION EXTENDED THE PARTIAL WAIVER GRANTED**
2 **TO DUKE ENERGY TO SCE&G, WOULD THE COMPANY BE**
3 **REQUIRED TO TAKE ADDITIONAL ADMINISTRATIVE**
4 **REGULATORY ACTION?**

5 A. Yes. SCE&G's Commission-approved General Terms and Conditions for
6 Electric Service contain a provision that largely tracks Rule 103-331. If the
7 Commission extended the waiver to SCE&G, then the Company would be
8 required to update its General Terms and Conditions to conform to the
9 Commission's ruling in this docket.

10 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

11 A. Yes.